

BEFORE THE  
POSTAL REGULATORY COMMISSION  
WASHINGTON, D.C. 20268-0001

PERIODIC REPORTING  
(PROPOSAL THREE)

Docket No. RM2021-6

PETITION OF THE UNITED STATES POSTAL SERVICE FOR THE  
INITIATION OF A PROCEEDING TO CONSIDER PROPOSED CHANGES  
IN ANALYTICAL PRINCIPLES (PROPOSAL THREE)  
(April 8, 2021)

Pursuant to 39 C.F.R. § 3050.11, the Postal Service requests that the Commission initiate a rulemaking proceeding to consider a proposal to change an analytical principle underlying the Postal Service's periodic reports. The proposal, a change to simplify calculating and reporting workshare discounts and percentage passthroughs for dropshipped Marketing Mail Carrier Route Flats, is labeled Proposal Three and is discussed in detail in the attached.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

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### **Proposal Three**

#### **PROPOSED CHANGE TO SIMPLIFY REPORTING OF WORKSHARE DISCOUNTS FOR DROPSHIPED MARKETING MAIL CARRIER ROUTE FLATS**

##### **OBJECTIVE:**

Proposal Three would merge reporting of workshare discounts for dropshipped Marketing Mail Carrier Route Flats that are currently reported separately. Specifically, in Folder 3 of the Annual Compliance Report (ACR), the Postal Service calculates and reports workshare discounts and percentage passthroughs for Marketing Mail Carrier Route Flats on 5-digit pallets separately from those for all other Marketing Mail Carrier Route Flats. Proposal Three would combine the two and report workshare discounts and percentage passthroughs for all Marketing Mail Carrier Route Flats together because the underlying costs and cost calculations are the same, but the continued separation can result in unpredictable, if not irrational, pricing changes when complying with the Commission's new regulations governing workshare discounts.

##### **BACKGROUND:**

In 2015, the Postal Service proposed a new price category for Marketing Mail Flats – then called Standard Mail Flats – on 5-digit pallets that contained only Carrier Route or finer presorted bundles. Pallets prepared this way had lower bundle sorting costs because these pallets could be directly cross-docked to the destination delivery units (DDUs). The new price category, the lowest price available for Non-FSS Standard Mail Flats, was intended to encourage mailers to prepare more of these “pure” or “direct” pallets. Docket No. R2015-4, United States Postal Service Notice of Market-Dominant Price Adjustment, Jan. 15, 2015, at 15-16, 26.

The Commission approved the new price category, Docket No. R2015-4, Order on Revised Price Adjustments for Standard Mail, Periodical, & Package Service Product and Related Mail Classification Changes, May 7, 2015, at 43 (Order 2472), which went into effect on May 15, 2015. Order 2472 at pp. 4-5, 62.

Accordingly, the FY 2015 ACR reflected the new price category. As is relevant here, workshare discounts and percentage passthroughs for dropshipped Standard Mail Carrier Route Flats on “direct” 5-digit pallets were calculated and reported separately from those for all other Standard Mail Carrier Route pieces, Table 1.<sup>1</sup>

**Table 1: FY 2015 Workshare Discounts and Benchmarks—Standard Mail Carrier Route Letters, Flats, Parcels, and Flats (Commercial and Nonprofit).**

Type of Worksharing	Benchmark	Discount <sup>[1]</sup>	Avoided Cost <sup>[2]</sup>	Pass-through
<b>Standard Mail Commercial and Nonprofit CR Letters, Flats, Parcels</b>				
*****				
<b>Dropshipping (dollars / pound)</b>				
DNDC Flats	Origin Flats	<b>\$0.168</b>	<b>\$0.244</b>	68.9%
DSCF Flats	Origin Flats	<b>\$0.218</b>	<b>\$0.283</b>	77.0%
DDU Flats	Origin Flats	<b>\$0.263</b>	<b>\$0.331</b>	79.5%
<b>Standard Mail Commercial and Nonprofit Carrier Route Flats (5-Digit Pallets)</b>				
*****				
<b>Dropshipping (dollars / pound)</b>				
DNDC Flats on 5-Digit Pallets	Origin Flats	<b>\$0.168</b>	<b>\$0.244</b>	68.9%
DSCF Flats on 5-Digit Pallets	Origin Flats	<b>\$0.218</b>	<b>\$0.283</b>	77.0%
DDU Flats on 5-Digit Pallets	Origin Flats	<b>\$0.263</b>	<b>\$0.331</b>	79.5%

**Notes**

- [1] Source of Discounts: Notice 123, Effective May 31, 2015  
Discounts are calculated by subtracting the price in question from the benchmark price
- [2] Dropship Cost Differences--Source: Docket No. ACR2015, USPS-FY15-13 STD\_TOTAL.xls, Tab: Summary All Shapes  
5-Digit Pallets Cost Avoidances from ACR2015, USPS-FY15-11 STD Flats, Tab: CR CRA ADJ UNIT COSTS

Source: Docket No. ACR2015, USPS-FY15-3, Dec. 29, 2015, at tab Standard Mail Carrier Route

<sup>1</sup> Tables 1 – 3 are excerpted directly from the sources indicated, with minor modifications for formatting. The rows of asterisks indicate material omitted.

Workshare discounts and percentage passthroughs for dropshipped Standard Mail Carrier Route Flats on “direct” 5-digit pallets were similarly reported in the FY 2016 ACR. Docket No. ACR2016, USPS-FY16-3, revised Mar. 6, 2017, at tab Standard Mail Carrier Route.

In 2017, the Postal Service proposed to improve the methodology it used to calculate dropship workshare discounts for Marketing Mail. Docket No. RM2017-11, Petition of the United States Postal Service for the Initiation of a Proceeding to Consider Proposed Changes in Analytical Principles (Proposal Seven), July 28, 2017.

For Marketing Mail Flats, two groups of rates were available to mailers: a rate per piece for pieces lighter than a breakpoint weight (between 3.3 and 4 ounces, depending on the rate category), and a combined rate, per piece and per pound, for pieces heavier than the breakpoint weight. The workshare discount calculation at the time divided only the discount for pieces heavier than the breakpoint weight by the avoided cost per pound for pieces both above and below the breakpoint weight. Docket RM2017-11, Order on Analytical Principles Used in Periodic Reporting (Proposal Seven), Nov. 20, 2017, at 3 (Order 4227). As such, this method of calculating workshare discounts was incomplete. It did not include in its numerator pieces below the pricing breakpoint, but it did include the weight of those pieces in the denominator.

The Postal Service therefore proposed, and the Commission approved, a modified methodology to address the limitation by including in the numerator the discount for pieces below the breakpoint weight, adding them to the discount for pounds above the breakpoint weight and dividing by the avoided cost per pound for weights above and below the breakpoint weight:

$$\frac{((\text{Pound discount} * \text{Pounds above breakpoint}) + (\text{Piece discount} * \text{Pieces below breakpoint}))}{(\text{Avoided cost per pound} * \text{Pounds above and below breakpoint})}$$

Order No. 4227 at 4, 8. The modified methodology had additional virtues. The great majority of costs avoided by dropshipping come from transportation, transportation costs are driven mainly by volume and distance travelled, weight is positively correlated with volume, and the Postal Service already calculated avoided costs for Marketing Mail by weight. The new methodology, in short, calculated workshare discounts using the same units as are used in the calculation of avoided costs. Docket RM2017-11, Response of the United States Postal Service to Chairman's Information Request No. 1, Aug. 29, 2017, at 5-6; Order 4227 at 7.

Given this, calculating workshare discounts and percentage passthroughs for Marketing Mail Flats (and Parcels) is different than calculating workshare discounts and percentage passthroughs for most other products. In most other cases, the Postal Service can simply subtract the unit discount from the published, or benchmark, price given on the relevant pricing table, e.g. Notice 123, and divide by the avoided cost. For the combined per-piece and per-pound prices of Marketing Mail Flats (and Parcels), this approach does not work because the benchmark price varies depending on weight. Put slightly differently, the Postal Service can only calculate workshare discounts and percentage passthroughs in Folder 3 for Marketing Mail Flats on a weighted basis *after* mailing, usually at the end of the year, when the weights and numbers of pieces sent are known.

Accordingly, in the Annual Compliance Report for FY 2017, the Postal Service provided an additional table that reflected both the piece-to-weight conversion and the

new, modified methodology for calculating the workshare discount, still reporting dropshipped Marketing Mail “direct” Carrier Route Flats separately, Table 2:

**Table 2: FY 2017 Calculated Workshare Discounts and Percentage Passthroughs, Dropship Marketing Mail Carrier Route Flats**

FY 2017 Billing Determinants				Dropship Discount vs. Origin [1]			Total Est. Avoided Cost vs. Origin (\$1,000) (g)*	Total of the Piece-Related and Pound-Related Discounts (\$1,000) (h)**	Combined Piece-Rated and Pound-Rated Dropship Passthrough (i) = (h) / (g)
Piece-Rated Vol. (1,000) (a)	Piece-Rated Lbs. (1,000) (b)	Pound-Rated Lbs. (1,000) (c)	Per-Pound Est. Avoided Cost v. Origin* [2] (d)	Piece-Rated, Per Piece (e)	Pound-Rated, per Pound (f)				
*****									
Commercial and Nonprofit Basic Carrier Route Flats									
DNDC	314,910.0	49,298.1	44,750.8	\$0.282	\$0.030	\$0.120	\$26,522	\$14,817	55.9%
DSCF	4,558,312.9	711,639.0	613,379.0	\$0.311	\$0.038	\$0.152	\$412,081	\$266,449	64.7%
DDU	40,545.5	3,162.1	4,293.5	\$0.354	\$0.049	\$0.196	\$2,639	\$2,828	107.2%
Commercial and Nonprofit Basic Carrier Route Flats on 5-Digit Pallets									
DNDC	6,983.1	1,087.1	1,975.9	\$0.282	\$0.030	\$0.120	\$864	\$447	51.7%
DSCF	480,934.1	77,599.9	135,269.2	\$0.311	\$0.038	\$0.152	\$66,202	\$38,836	58.7%
DDU	11,065.9	1,564.3	4,807.6	\$0.354	\$0.049	\$0.196	\$2,256	\$1,485	65.8%
*****									

\* (g) = [(b) + (c)] x (d)

\*\* (h) = [(a) x (e)] + [(c) x (f)]

[1] Source of Discounts: Notice 123, Effective September 3, 2017

Discounts are calculated by subtracting the price in question from the benchmark price

[2] Dropship Cost Differences--Source: Docket No. ACR2017, USPS-FY17-13.MKTG.xlsx, Tab: Summary

Source: Docket No. ACR2017, USPS-FY17-3, Dec. 29, 2017, at tab Flats & Parcels Dropship.

Using the formula for the modified methodology, the workshare discount is calculated from Table 2, thus:

$$\frac{((f*c)+(e*a))}{d*(b+c)} = \frac{h}{g}$$

The Postal Service has provided this table with each Annual Compliance Report since 2017. Docket No. ACR2018, USPS-FY18-3, Dec. 28, 2018, at tab Flats & Parcels Dropship; Docket No. ACR2019, USPS-FY19-3, Dec. 27, 2019, at tab Flats & Parcels Dropship. Table 3 shows the table from FY 2020.

**Table 3: FY 2020 Calculated Workshare Discounts and Percentage Passthroughs, Dropship Marketing Mail Carrier Route Flats**

FY 2020 Billing Determinants				Dropship Discount vs. Origin [1]			Total Est. Avoided Cost vs. Origin (\$1,000) (g)*	Total of the Piece-Related and Pound-Related Discounts (\$1,000) (h)**	Combined Piece-Rated and Pound-Rated Dropship Passthrough (i) = (h) / (g)
Piece-Rated Vol. (1,000) (a)	Piece-Rated Lbs. (1,000) (b)	Pound-Rated Lbs. (1,000) (c)	Per-Pound Est. Avoided Cost v. Origin* [2] (d)	Piece-Rated, Per Piece (e)	Pound-Rated, per Pound (f)				
*****									
Commercial and Nonprofit Basic Carrier Route Flats									
DNDC	227,513.0	36,540.1	28,508.4	\$0.375	\$0.031	\$0.125	\$24,393	\$10,616	43.5%
DSCF	2,909,125.2	436,849.0	319,215.9	\$0.411	\$0.037	\$0.151	\$310,743	\$155,839	50.2%
DDU	29,698.6	2,460.4	1,572.1	\$0.470	\$0.048	\$0.194	\$1,895	\$1,731	91.3%
Commercial and Nonprofit Basic Carrier Route Flats on 5-Digit Pallets									
DNDC	11,228.6	1,757.4	2,486.3	\$0.375	\$0.031	\$0.125	\$1,591	\$659	41.4%
DSCF	411,878.8	69,698.2	106,862.9	\$0.411	\$0.037	\$0.151	\$72,567	\$31,376	43.2%
DDU	13,058.5	1,738.2	2,473.3	\$0.470	\$0.048	\$0.194	\$1,979	\$1,107	55.9%
*****									

\* (g) = [(b) + (c)] x

(d)

\*\* (h) = [(a) x (e)] + [(c) x (f)]

[1] Source of Discounts: Notice 123, Effective September 3, 2017

Discounts are calculated by subtracting the price in question from the benchmark price

[2] Dropship Cost Differences--Source: Docket No. ACR2017, USPS-FY17-13.MKTG.xlsx, Tab: Summary

Source: Docket No. ACR2020, USPS-FY20-3, Dec. 29, 2020, at tab Flats & Parcels Dropship.

## **LIMITATIONS OF THE CURRENT METHODOLOGY:**

Separately calculating and reporting workshare discounts and percentage passthroughs for dropshipped Carrier Route Flats on “direct” pallets has the potential to create non-compliant anomalies under the Commission’s new passthrough regulations. The underlying dropshipping costs and cost calculations are, and have been, the same for Carrier Route Flats on “direct” pallets and all other Carrier Route Flats. See Table 2 and Table 3, column d; Table 1, under “Avoided Cost.”

However, with the introduction of the modified methodology in 2017, the workshare discount calculation includes both the per-piece and per-pound elements of the Market Mail Flats prices. Table 2 and Table 3, columns a – c. Depending on their respective volumes, those values may differ for Carrier Route Flats on “direct” pallets and all other Carrier Route Flats, which may result in different, sometimes greatly different, percentage passthroughs. Put slightly differently, Carrier Route Flats on “direct” pallets may show greatly different percentage passthroughs than other Carrier Route Flats, and vice versa, solely because of differences in the mix of pieces above and below the breakpoint weight (currently 4 ounces).

For example, in Table 3, the passthrough for Carrier Route Flats on “direct” pallets entered at the DDU in FY 2020 was 55.9 percent, while the passthrough for all other Carrier Route Flats entered at the DDU was 91.3 percent, the result of approximately inverse ratios of pounds above and below the breakpoint for the two price categories. While, again, underlying unit costs were the same for both (column d), approximately 60 percent of pounds for Carrier Route Flats on “direct” pallets (2.47 million) were from pieces above the breakpoint, and 40 percent were from pieces below



the breakpoint (1.74 million pounds); for all other Carrier Route Flats, approximately 40 percent of pounds were from pieces above the breakpoint (1.57 million pounds), and 60 percent were from pieces below the breakpoint (2.46 million pounds).

## PROPOSAL:

The Postal Service proposes that it stop separately calculating and reporting workshare discounts and percentage passthroughs for dropship Marketing Mail Carrier Route Flats on “direct” pallets and instead calculate and report workshare discounts and percentage passthroughs for all dropship Marketing Mail Carrier Route Flats together.

Table 4 provides an example, using FY 2020 figures, adding together pieces and pounds in columns a – c for the respective dropship levels and recalculating totals in columns g – i using the common costs and discounts in columns d – f.

**Table 4: Proposed Calculated Workshare Discounts and Percentage Passthroughs All Dropship Marketing Mail Carrier Route Flats**

FY 2020 Billing Determinants			Dropship Discount vs. Origin [1]					
Piece-Rated Vol. (1,000)	Piece-Rated Lbs. (1,000)	Pound-Rated Lbs. (1,000)	Per-Pound Est. Avoided Cost v. Origin* [2]	Piece-Rated, Per Piece (e)	Pound-Rated, per Pound (f)	Total Est. Avoided Cost vs. Origin (\$1,000) (g)*	Total of the Piece-Related and Pound-Related Discounts (\$1,000) (h)**	Combined Piece-Rated and Pound-Rated Dropship Passthrough (i) = (h) / (g)
(a)	(b)	(c)	(d)	(e)	(f)	(g)*	(h)**	(i) = (h) / (g)
*****								
Commercial and Nonprofit Carrier Route Flats								
DNDC	238,741.6	38,297.5	30,994.7	\$0.375	\$0.031	\$0.125	\$25,985	\$11,275 43.4%
DSCF	3,321,004.0	506,547.2	426,078.8	\$0.411	\$0.037	\$0.151	\$383,309	\$187,215 48.8%
DDU	42,757.0	4,198.6	4,045.4	\$0.470	\$0.048	\$0.194	\$3,875	\$2,837 73.2%

\*\*\*\*\*

\* (g) = [(b) + (c)] x (d)

\*\* (h) = [(a) x (e)] + [(c) x (f)]

## **RATIONALE AND IMPACT:**

This proposal seeks to equalize the cost avoidance calculation across Marketing Mail density tiers (e.g., MADC, ADC, High Density, Saturation). Carrier Route Flats is the only Marketing Mail product where the density discount is sub-divided based on preparation characteristics. For the same density tier, rates are given based on whether the mail is prepared on “direct” pallets or other containers. When preparation characteristics are correlated with other characteristics that influence cost avoidance calculations, such as weight or entry, then anomalous relationships can result. These anomalous relationships would not occur if the density tier were treated as all other density tiers were treated, *i.e.* if the cost avoidance calculation were based on all pieces within the density tier.

Further, Tables 2 and 3 show that volumes for Carrier Route Flats on “direct” pallets are sometimes many times smaller, sometimes a full order of magnitude smaller, than volumes for all other Carrier Route flats entered at the same destination delivery point. This disparity creates the possibility of greater year-over-year volatility for the percentage passthroughs calculated for Carrier Route Flats on “direct” pallets as compared to all other pallets. By combining volumes and calculating workshare discounts and percentage passthroughs for Marketing Mail Carrier Route flats as a single group, Proposal Three would reduce volatility in the calculation of percentage passthroughs for dropshipped Marketing Mail Carrier Route Flats and, as such,

increase rationality and predictability in pricing, especially given the new regulations governing workshare discounts.

For example, as shown and discussed above, in FY 2020 the passthrough for Marketing Mail Carrier Route Flats on “direct” pallets entered at the DDU was 55.9 percent, while the passthrough for all other Carrier Route Flats was 91.3 percent. Table 3. This was the case even though the underlying unit costs for both were the same. Table 3, column d.

New § 3030.284, however, prohibits workshare discounts below avoided costs, absent a waiver, unless the workshare discount is raised a minimum of 20 percent, § 3030.284(b), or the percentage passthrough is at least 85 percent, § 3030.284(e). Accordingly, the next time the Postal Service addresses workshare discounts for dropshipped Marketing Mail Carrier Route Flats entered at the DDU, under § 3030.284 it will have to adjust the percentage passthrough for Carrier Route Flats on “direct” pallets to bring it closer to 100 percent. Doing this, however, would have a number of unpredictable, if not irrational, pricing consequences.

First, § 3030.284 does not require the Postal Service to adjust the 91.3 percent passthrough for all other Carrier Route Flats entered at the DDU. But increasing the workshare discount for Carrier Route Flats on “direct” pallets to 85 percent in an attempt to comply with § 3030.284(e) would, using FY 2020 numbers, cause the percentage passthrough for all other Carrier Route Flats entered at the DDU to increase to 138.9 percent and violate § 3030.283.

Second, attempting to raise the workshare discount for Carrier Route Flats on “direct” pallets without changing the workshare discount for all other Carrier Route Flats

would have further consequences still. Currently, the Postal Service offers a 2.1 cent discount for Carrier Route Flats on “direct” pallets, because it costs less for the Postal Service to process “direct” pallets. As mentioned above, “direct” pallets can be cross-docked and moved directly, while all other pallets have to be taken apart, sorted, and reassembled first. Because those costs saved are the same regardless of dropship entry location, the 2.1 cent discount is the same for entry at origin, NDC, SCF, and DDU. Notice 123 at 20.

But changing the unit dropship workshare discount for Carrier Route Flats on “direct” pallets without changing the corresponding workshare discount for Carrier Route Flats on all other pallets to same level would require the Postal Service to change this rational pricing structure and set different prices and different discounts for each dropship entry level, and this is problematic. On the one hand, prices would no longer reflect the uniform costs saved by processing “direct” pallets. On the other hand, the change is legally impermissible under the 39 C.F.R. § 3030.382(a). That section prohibits the Postal Service from adjusting a discount rate when the rate is equal to the cost avoided for not providing the applicable service. After the January 24, 2021, price change in R2021-1 took effect, the Postal Service’s cost avoided for Market Mail Carrier Route Flats on “direct” pallets will be 2.1 cents, equal to the discount given.

In short, given all of the foregoing, maintaining separate reporting of workshare discounts and percentage passthroughs for dropshipped Marketing Mail Carrier Route flats creates the possibility that complying with governing regulations will result in unpredictable, if not irrational or impossible, pricing changes. Reporting workshare

discounts and percentage passthroughs for all Carrier Route Flats together removes these problems.